

## INFORMED BUDGETEER

@ Fiscal New Year 2002 Countdown @ Calendar Days to October 1, 2001 (From September 10)	
Total Days	21
Less:	
Religious Holidays (2 days)	19
Fridays & Mondays before/after Non-Leg. Periods (2)	17
Remaining Saturdays & Sundays in Sept. (6)	11
<b>LEGISLATIVE DAYS REMAINING 'TIL FY 2002</b>	<b>11</b>

**DE FACTO CURRENT LEVEL – OTHERWISE KNOWN AS...  
WHERE CONGRESS STANDS WITH RESPECT TO THE  
SOCIAL SECURITY SURPLUS**

- Ever since the release of the CBO and OMB midsession updates, there has been much talk about whether or not Congress will use Social Security funds for any purpose other than debt reduction. To clarify that debate, the *Bulletin* thought it might be useful to present the following table that shows what a current level scorecard for fiscal year 2002 would look like if it were based on CBO's most recent baseline rather than the Budget Resolution baseline.

“NEW CURRENT LEVEL” SCORECARD USING CBO’S AUGUST ECONOMIC AND TECHNICAL ASSUMPTIONS (\$ in Billions)		
	2002	2002-2011
<b>CBO March Baseline</b>		
Unified Surplus	312.934	5609.693
Non-Social Security	140.797	3119.492
Social Security	172.137	2490.201
Technical changes in May	-9.006	18.841
Economic/Technical Changes in August	-75.805	-460.922
<b>Changes due to enacted legislation</b>		
Discretionary <sup>/a</sup>	6.234	88.495
Mandatory <sup>/b</sup>	-31.536	-1186.287
Tax Cuts <sup>/c</sup>	4.053	379.407
Net Interest	45.223	1617.734
TOTAL, enacted legislative changes	130.034	2059.815
Total Changes		
<b>TOTAL, including changes</b>	<b>182.900</b>	<b>3549.878</b>
Unified surplus	7.111	994.898
Non-Social Security	175.789	2554.980
Social Security	37.557	403.872
HI surplus	-30.446	591.026
Non Social Security less HI surplus		

Source: Senate Budget Committee Republican Staff

<sup>/a</sup> The legislative discretionary changes are calculated to result in outlays equal to the discretionary outlays in the FY 2002 Budget Resolution.

<sup>/b</sup> Includes effects of H.R. 581, H.R. 1836 (JCT scoring), S.657, S. 1029, H.R. 2213, and H.R. 93.

<sup>/c</sup> Includes effects of H.R.1836 (JCT scoring), H.R. 1727, and S. 1029.

- This scorecard represents what the *Bulletin* believes to be the current budgetary position of Congress, incorporating both legislation that has already been enacted this year, as well as CBO's technical changes in the May baseline and CBO's economic and technical assumptions from the August baseline. While a current level that uses CBO's assumptions from the August baseline has no bearing on budget resolution enforcement (as explained in last week's Budget Quiz), the *Bulletin* understands that it is important for Congress to appreciate the latest economic information available.
- According to this version of a current level scorecard, there is a unified surplus of \$182.9 billion remaining in 2002. This unified surplus consists of a Social Security surplus of \$175.8 billion and a non-Social Security surplus of \$7.1 billion. For the ten-year period beginning in fiscal year 2002 and ending in fiscal year 2011, the scorecard shows a unified surplus of \$3,549.9 billion. Over the ten years, there is a \$2,555.0 billion Social Security surplus and a \$994.9

billion non-Social Security surplus.

- To arrive at the surplus figures, the table starts with CBO's March baseline surplus estimates and then adjusts for subsequent economic and technical changes to reach CBO's August surplus estimates. The table also adjusts for enacted legislative changes to date, including the revenue and spending impact of the Economic Growth and Tax Relief Reconciliation Act, the mandatory impact of the Emergency Agricultural Assistance Act, and the interest impact of both pieces of legislation. The bottom-line surplus figures in the table **do not** reflect assumptions contained in the budget resolution that have yet to be enacted, even for those with amounts set aside in reserve funds.
- The “remaining” surplus figures (\$7.1 billion in 2002) also reflect a bridge that adjusts for the difference between CBO's latest baseline estimate of discretionary outlays and the level of outlays assumed in the Budget Resolution. (True, that level of outlays is not yet “enacted”, but this exercise assumes they ultimately will be). For fiscal year 2002, the Budget Resolution called for discretionary outlays equal to \$682.8 billion. As informed budgeteers will remember, while the numbers in the resolution included outlays flowing from a fiscal year 2001 supplemental, they did not reflect the \$18.5 billion in BA and resulting outlays requested by the President's National Defense Review.
- Technical note: CBO's August publication reports an on-budget surplus of nearly \$2 billion for fiscal year 2002. Because Postal Service outlays of \$1.2 billion are legally classified as off-budget, they are not included in CBO's on-budget surplus. At the same time, those outlays are also not Social Security outlays and therefore act to reduce the non-Social Security surplus. As a result, CBO's non-Social Security surplus is \$0.5 billion in 2002. Informed budgeteers may note that this non-Social Security surplus is \$6.6 billion less than the \$7.1 billion non-Social Security surplus that appears on the *Bulletin's* current level scorecard. Such a difference occurs because the budget resolution, unlike CBO's discretionary baseline, did not project the 2001 supplemental into 2002 (the difference between CBO's \$689.4 billion in discretionary outlays and the \$682.8 billion in discretionary outlays in the budget resolution).
- With \$7.1 billion of the non-Social Security surplus currently remaining unspent, Congress has some important decisions to make before adjourning *sine die*. The *Bulletin* believes that these hard decisions can be made more intelligently if Congress can work from a transparent and consistent set of numbers.

**RESERVE FUNDS MEET POLITICAL REALITY**

- Inquiring budgeteers have already been asking, “What about the reserve funds that were in the budget for agriculture, health insurance, prescription drugs, and other programs? Are these funds still available?” This question pits budget assumptions against political reality.
- As we noted in last week's *Bulletin*, the 2002 Budget Resolution is based on CBO's March baseline. The Chairman of the Budget Committee has the authority to update and enforce the Budget Resolution and score legislation based on CBO's May economic numbers if he chooses.
- If Chairman Conrad were to update the Budget Resolution using the May numbers (which he has not yet done), there still would be sufficient on-budget surplus (\$47.1 billion), in excess of the Medicare HI surplus, to allow for the release of all the reserve funds included in the 2002 Budget Resolution.
- So if, for example, the Finance Committee reports legislation in the coming months to provide health insurance coverage for the uninsured, the *Bulletin* believes there is no Budget Resolution enforcement mechanism that would prevent the Chairman from releasing the reserve fund monies for this legislation. According

to the May CBO numbers, the release of these funds would not cause the on-budget surplus to fall below the level of the Medicare HI surplus.

- But what about political reality? CBO's August numbers show that there is only a \$7.1 billion non-Social Security surplus still available in 2002. Reflecting the August baseline, this "new current level" could be said to already be past the so-called Medicare surplus by \$30 billion, not counting any of the reserve funds.

<b>SENATE MANDATORY RESERVE FUNDS in the FY 2002 BUDGET RESOLUTION<sup>a</sup></b> (\$ in Billions)		
<b>Reserve Fund</b>	<b>2002</b>	<b>2002-2011</b>
Agriculture		
BA	0	66.150
OT	0	66.150
Family Opportunity Act		
BA	0.240	7.995
OT	0.144	7.356
Health Insurance for the Uninsured		
BA	8.000	28.000
OT	8.000	28.000
Medicare		
BA	0	300.000
OT	0	300.000
Medicare - Home Health		
BA	0	13.699
OT	0	13.699
Student Loan Technical		
BA	-0.060	9.735
OT	-0.055	8.295
<b>TOTAL, Mandatory Reserve Funds<sup>b</sup></b>		
BA	8.180	425.579
OT	8.089	423.500
<b>"Current Level-Type"</b>		
<b>On-Budget Surplus less HI Surplus</b>	<b>47.088</b>	<b>1,070.383</b>
(Based on CBO's revised May baseline)		

Source: SBC Republican Staff, based on CBO's May baseline

<sup>a</sup> With the exception of the Medicare Reserve, every reserve fund in the FY 2002 Budget Resolution stipulates that release of the reserve is contingent upon a Budget Committee determination that the legislation, when taken together with all other previously enacted legislation, does not reduce the on-budget surplus below the level of the Medicare Hospital Insurance Trust Fund.

<sup>b</sup> In addition to the mandatory reserve funds listed here, the FY 2002 Budget Resolution also adopted a discretionary reserve fund in the Senate that allows for additional resources for defense spending in response to the recommendations of the President's National Defense Review. This review recommends an additional \$18.5 billion in BA for 2002, with resulting outlays of \$11.4 billion.

- So if the Finance Committee reports legislation on the uninsured, there is no authority for the Chairman of the Budget Committee to withhold amounts in the reserve fund. However, given bipartisan pledges to reduce debt by at least the amount of the Social Security surplus, the question of whether to release reserve funds is less a budgetary question than a political one: Will the Congress enact assumptions of the Budget Resolution even if it means the unified surplus will be less than the Social Security surplus?
- To answer the initial question: The reserve fund monies are "available" under the rules set out by the budget resolution, but Congress must grapple with the question of whether policies such as a prescription drug benefit or health insurance for the uninsured are more important than the pledge to use Social Security surpluses exclusively for debt reduction.

### Budget Quiz

**Question:** Given the most recent estimates of the 2002 surplus, does

the President have any real hope of getting the \$18.5 billion in additional funds he has requested for discretionary defense spending under the terms of the 2002 budget resolution? Can the Chairman of the Senate Budget Committee really do anything to prevent it?

Answer: The short answers are "yes" and "no" respectively, at least as long as there are 60 votes in the Senate to do so. And – it should be no surprise to anyone – the long answers may also be the same.

The language of section 217 of the FY 2002 budget resolution – Defense Reserve fund in the Senate – contains the ubiquitous "Medicare surplus prohibition", which prohibits any release of funds under that section if doing so would cause the on-budget surplus to be less than the Medicare HI surplus (which is the case with all reserve funds, except Medicare/Rx drugs). Nonetheless, it is important to note that under certain scenarios, the section 217 reserve fund could be easily made moot by the practical application of section 203 of the resolution. Section 203 sets out a mechanism for increasing the limits on discretionary spending.

Consider this scenario: the discretionary caps remain at their current statutory levels (\$549 in BA and \$572 in outlays, according to CBO) during the consideration of all the appropriation bills, except the Defense or the Labor, Health and Human Services appropriation bills. Then, on one of these last appropriation bills, the statutory caps are increased to a level that accommodates the additional \$18.5 billion in BA for defense as well as an amount to bring non-defense spending up to the assumptions in the budget resolution (or picture this -- an even a greater amount for non-defense programs as well). At the same time, the section 203(c) firewalls in the Senate are also amended to reflect the additional spending.

Now what does the Budget Committee Chairman do? The language of section 203(b) grants the Chairman the general authority to increase the overall 302(a) allocation to the Appropriations Committee once the statutory caps have been increased. Note, that there is no "Medicare surplus prohibition" language in section 203. Will the Chairman refuse to increase the allocation to the full extent permitted by law? If he refuses, will the Senate back him up and fail to waive the inevitable Budget Act point of order (section 302(f)) that would lie against the not-yet-enacted appropriation bills? Note that the President will have signed into law the cap increase – so there will be no sequester. Or does the vehicle containing the cap increase actually provide in the law itself for a new 302(a) allocation, thus totally bypassing the Chairman's role in adjusting the 302(a) allocation? *We wonder.*

### THE SURPLUS MONSTER



History tells us that this is not the first time Congress has had to confront a surplus question. Maybe not exactly the same, but there are similarities to today's debates.

- The 50<sup>th</sup> Congress convening in December 1887 was met with a *Puck* cartoon (reproduced here) depicting a bloated dragon spread out over the House chamber. Inscribed under the cartoon was: "Tariff Monster – Here I am again! What are you going to do with me?"
- Almost predictive of today, President Grover Cleveland went before a joint session of Congress the day before the *Puck* cartoon appeared and argued that purchasing outstanding bonds with the surplus was not a solution, particularly since a large part of those bonds were held by foreign governments as investments which could not be purchased at any price.
- So what did Cleveland, a Democrat, recommend to deal with the monster? – cut tariffs, cut taxes!